



**DEPARTMENT OF INSURANCE  
THREE YEARS ENDED JUNE 30, 2002**

**From The Office Of State Auditor  
Claire McCaskill**

**Report No. 2003-77  
July 31, 2003  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)**

# AUDIT REPORT



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

July 2003

**The following problems were discovered as a result of an audit conducted by our office of the Department of Insurance (MDI).**

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The MDI's current travel policies allow its insurance examiners domiciled in the same location and working on the same examination to use different travel methods, which has resulted in higher travel costs. On at least two occasions, examiners assigned to the same examination used different travel methods or worked different schedules, and travel costs could have been reduced on these examinations if all examiners had worked the same schedules. In addition, the MDI does not require examiners to ride together in personal vehicles when driving to the examination site or to the airport. Because examiners are reimbursed for travel in personal vehicles, requiring employees to ride together would result in lower travel costs. Travel costs incurred by examiners totaled \$1.49 million, \$1.29 million, and \$1.31 million for fiscal years 2002, 2001, and 2000, respectively.

Similar conditions were noted in our prior audit. Because of the significant amount of travel costs incurred by examiners, it is important that the MDI adopt travel policies which require cost-efficient travel methods be followed by all examiners.

The MDI has not certified delinquent premium tax collections on certain policies (called surplus lines policies) on a timely basis. The MDI certified delinquent collections totaling \$811,312 and \$266,074 due in 2002 and 2001, respectively, to the Department of Revenue (DOR) in January 2003. The DOR is responsible for collecting interest and penalties on premium taxes and the amount of interest and penalties to be collected for these delinquent taxes totaled \$102,724 and \$41,288 for 2002 and 2001, respectively. A cooperative agreement between the MDI and the DOR requires certification of delinquent premium taxes every six months.

The MDI receives a federal grant from the U.S. Department of Health and Human Services (DHHS), which it uses to contract with a not-for-profit foundation to provide insurance counseling services for senior citizens. To obtain payment from the MDI, the foundation submits monthly invoices listing the hours spent by various personnel, the hourly reimbursement rate, and other operating expenses. The MDI does not require the foundation to provide detailed documentation supporting the amounts claimed for reimbursement. The foundations bills for actual indirect costs and fringe benefits not to exceed the rates approved by the DHHS for another contract with the foundation; however, the MDI has not required the foundation to provide documentation for these rates. A similar condition was noted in our prior audit.

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## FINANCIAL SECTION

## State Auditor's Reports



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

**INDEPENDENT AUDITOR'S REPORT ON  
THE FINANCIAL STATEMENTS**

Honorable Bob Holden, Governor  
and  
Scott Lakin, Director  
Department of Insurance  
Jefferson City, MO 65102

We have audited the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments; Comparative Statement of Receipts; and Comparative Statement of Appropriations and Expenditures of the various funds of the Department of Insurance as of and for the years ended June 30, 2002, 2001, and 2000. These financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, these financial statements were prepared on the cash basis of accounting or the state's legal budgetary basis of accounting, which are comprehensive bases of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the General Revenue Fund-Federal, Insurance Examiners Fund, Department of Insurance Dedicated Fund, Trans-National Warranty Accounts, and Rehabilitation Accounts; the receipts of the General Revenue Fund-State, Worker's Compensation Fund, Second Injury Fund, and State School Moneys Fund; and the

appropriations and expenditures of the various funds of the Department of Insurance as of and for the years ended June 30, 2002, 2001, and 2000, on the bases of accounting discussed in Note 1.

In accordance with *Government Auditing Standards*, we also have issued our report dated April 4, 2003, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements, taken as a whole, that are referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the department's management and was not subjected to the auditing procedures applied in the audit of the financial statements referred to above. Accordingly, we express no opinion on the information.

An integral part of the department's funding comes from federal awards. Those federal awards are reported on in the State of Missouri Single Audit Report issued by the State Auditor's office. The single audit is conducted in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill  
State Auditor

April 4, 2003 (fieldwork completion date)

The following auditors participated in the preparation of this report:

|                     |                                |
|---------------------|--------------------------------|
| Director of Audits: | Kenneth W. Kuster, CPA         |
| Audit Manager:      | Mark Ruether, CPA              |
| In-Charge Auditor:  | John Lieser, CPA               |
| Audit Staff:        | Thomas Franklin<br>David Gregg |





**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

**INDEPENDENT AUDITOR'S REPORT ON  
THE FINANCIAL STATEMENTS**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Honorable Bob Holden, Governor  
and  
Scott Lakin, Director  
Department of Insurance  
Jefferson City, MO 65102

We have audited the financial statements of the Department of Insurance as of and for the years ended June 30, 2002, 2001, and 2000, and have issued our report thereon dated April 4, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Department of Insurance are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance which is described in the accompanying Management Advisory Report.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Department of Insurance, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce

to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting which are described in the accompanying Management Advisory Report.

This report is intended for the information and use of the management of the Department of Insurance and other applicable government officials. However, pursuant to Section 29.270, RSMo 2000, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill  
State Auditor

April 4, 2003 (fieldwork completion date)

## Financial Statements

Exhibit A-1

DEPARTMENT OF INSURANCE  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH  
AND INVESTMENTS  
YEAR ENDED JUNE 30, 2002

|                                     | General<br>Revenue<br>Fund -<br>Federal | Insurance<br>Examiners<br>Fund | Department<br>of Insurance<br>Dedicated<br>Fund | Rehabilitation<br>Accounts | Total<br>(Memorandum<br>Only) |
|-------------------------------------|---|--------------------------------|---|----------------------------|-------------------------------|
| RECEIPTS                            |   |                                |   |                            |                               |
| Federal grant                       | \$ 400,000                              | 0                              | 0   | 0                          | 400,000                       |
| Examination fees                    | 0                                       | 8,056,415                      | 0   | 0                          | 8,056,415                     |
| Salesman licenses or permits        | 0                                       | 0                              | 4,197,370                                       | 0                          | 4,197,370                     |
| Broker licenses                     | 0                                       | 0                              | 407,210   | 0                          | 407,210                       |
| Merchant licenses                   | 0                                       | 0                              | 818,965   | 0                          | 818,965                       |
| Regulatory fees and renewals        | 0                                       | 0                              | 1,862,782                                       | 0                          | 1,862,782                     |
| Miscellaneous fees                  | 0                                       | 0                              | 570,580   | 0                          | 570,580                       |
| Filing fees                         | 0                                       | 0                              | 698,260   | 0                          | 698,260                       |
| Interest                            | 0                                       | 0                              | 379,687   | 8,249                      | 387,936                       |
| Other                               | 0                                       | 4                              | 74,802  | 0                          | 74,806                        |
| Total Receipts                      | 400,000                                 | 8,056,419                      | 9,009,656                                       | 8,249                      | 17,474,324                    |
| DISBURSEMENTS                       |   |                                |   |                            |                               |
| Personal service                    | 0                                       | 4,758,333                      | 4,820,093                                       | 0                          | 9,578,426                     |
| Employee fringe benefits            | 0                                       | 1,266,690                      | 1,547,075                                       | 0                          | 2,813,765                     |
| Expense and equipment               | 0                                       | 1,746,310                      | 1,261,692                                       | 0                          | 3,008,002                     |
| State office building rent          | 0                                       | 27,938                         | 226,112   | 0                          | 254,050                       |
| Workers' compensation claims        | 0                                       | 14,910                         | 35,916  | 0                          | 50,826                        |
| Insurance counseling contract costs | 400,000                                 | 0                              | 0   | 0                          | 400,000                       |
| Lease parking                       | 0                                       | 0                              | 8,099   | 0                          | 8,099                         |
| Other refunds                       | 0                                       | 7,768                          | 71,971  | 0                          | 79,739                        |
| Cost allocation plan                | 0                                       | 107,846                        | 148,679   | 0                          | 256,525                       |
| Transfer to another account         | 0                                       | 0                              | 0   | 10,719                     | 10,719                        |
| Other                               | 0                                       | 0                              | 3,497   | 203                        | 3,700                         |
| Total Disbursements                 | 400,000                                 | 7,929,795                      | 8,123,134                                       | 10,922                     | 16,463,851                    |
| RECEIPTS OVER (UNDER) DISBURSEMENTS | 0                                       | 126,624                        | 886,522   | (2,673)                    | 1,010,473                     |
| CASH AND INVESTMENTS, JULY 1        | 0                                       | 523,237                        | 9,190,004                                       | 127,705                    | 9,840,946                     |
| CASH AND INVESTMENTS, JUNE 30       | \$ 0                                    | 649,861                        | 10,076,526                                      | 125,032                    | 10,851,419                    |

The accompanying Notes to the Financial Statements are an integral part of this statement

## Exhibit A-2

DEPARTMENT OF INSURANCE  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH  
 AND INVESTMENTS  
 YEAR ENDED JUNE 30, 2001

|   | General<br>Revenue<br>Fund -<br>Federal | Insurance<br>Examiners<br>Fund | Department<br>of Insurance<br>Dedicated<br>Fund | Trans-<br>National<br>Warranty<br>Accounts | Rehabilitation<br>Accounts | Total<br>(Memorandum<br>Only) |
|---|---|--------------------------------|---|--|----------------------------|-------------------------------|
| <b>RECEIPTS</b>                           |   |                                |   |  |                            |                               |
| Federal grant                             | \$ 409,484                              | 0                              | 0   | 0  | 0                          | 409,484                       |
| Examination fees                          | 0                                       | 7,366,070                      | 0   | 0  | 0                          | 7,366,070                     |
| Salesman licenses or permits              | 0                                       | 0                              | 3,611,006                                       | 0  | 0                          | 3,611,006                     |
| Broker licenses                           | 0                                       | 0                              | 390,625   | 0  | 0                          | 390,625                       |
| Merchant licenses                         | 0                                       | 0                              | 941,515   | 0  | 0                          | 941,515                       |
| Regulatory fees and renewals              | 0                                       | 0                              | 1,945,303                                       | 0  | 0                          | 1,945,303                     |
| Miscellaneous fees                        | 0                                       | 0                              | 609,102   | 0  | 0                          | 609,102                       |
| Filing fees                               | 0                                       | 0                              | 686,670   | 0  | 0                          | 686,670                       |
| Transfer from another account             | 0                                       | 0                              | 0   | 90,183                                     | 0                          | 90,183                        |
| Interest                                  | 0                                       | 0                              | 573,653   | 1,598                                      | 12,460                     | 587,711                       |
| Other                                     | 0                                       | 0                              | 50,497  | 0  | 0                          | 50,497                        |
| Total Receipts                            | 409,484                                 | 7,366,070                      | 8,808,371                                       | 91,781                                     | 12,460                     | 16,688,166                    |
| <b>DISBURSEMENTS</b>                      |   |                                |   |  |                            |                               |
| Personal service                          | 0                                       | 4,536,537                      | 4,734,860                                       | 0  | 0                          | 9,271,397                     |
| Employee fringe benefits                  | 0                                       | 1,189,382                      | 1,471,687                                       | 0  | 0                          | 2,661,069                     |
| Expense and equipment                     | 0                                       | 1,597,470                      | 1,553,772                                       | 0  | 0                          | 3,151,242                     |
| State office building rent                | 0                                       | 25,685                         | 303,589   | 0  | 0                          | 329,274                       |
| Workers' compensation claims              | 0                                       | 0                              | 20,690  | 0  | 0                          | 20,690                        |
| Insurance counseling contract costs       | 409,484                                 | 0                              | 0   | 0  | 0                          | 409,484                       |
| Lease parking                             | 0                                       | 0                              | 8,249   | 0  | 0                          | 8,249                         |
| Article X refunds                         | 0                                       | 0                              | 105,561   | 0  | 0                          | 105,561                       |
| Other refunds                             | 0                                       | 0                              | 41,349  | 0  | 0                          | 41,349                        |
| Transfer to another account               | 0                                       | 0                              | 0   | 0  | 5,434                      | 5,434                         |
| Claims                                    | 0                                       | 0                              | 0   | 135,098                                    | 0                          | 135,098                       |
| Payments to rehabilitation administrators | 0                                       | 0                              | 0   | 9,423                                      | 0                          | 9,423                         |
| Other                                     | 0                                       | 0                              | 0   | 1,417                                      | 887                        | 2,304                         |
| Total Disbursements                       | 409,484                                 | 7,349,074                      | 8,239,757                                       | 145,938                                    | 6,321                      | 16,150,574                    |
| RECEIPTS OVER (UNDER) DISBURSEMENTS       | 0                                       | 16,996                         | 568,614   | (54,157)                                   | 6,139                      | 537,592                       |
| CASH AND INVESTMENTS, JULY 1              | 0                                       | 506,241                        | 8,621,390                                       | 54,157                                     | 121,566                    | 9,303,354                     |
| CASH AND INVESTMENTS, JUNE 30             | \$ 0                                    | 523,237                        | 9,190,004                                       | 0  | 127,705                    | 9,840,946                     |

The accompanying Notes to the Financial Statements are an integral part of this statement.

## Exhibit A-3

DEPARTMENT OF INSURANCE  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH  
 AND INVESTMENTS  
 YEAR ENDED JUNE 30, 2000

|                                     | General<br>Revenue<br>Fund -<br>Federal | Insurance<br>Examiners<br>Fund | Department<br>of Insurance<br>Dedicated<br>Fund | Trans-<br>National<br>Warranty<br>Accounts | Rehabilitation<br>Accounts | Total<br>(Memorandum<br>Only) |
|-------------------------------------|---|--------------------------------|---|--|----------------------------|-------------------------------|
| <b>RECEIPTS</b>                     |   |                                |   |  |                            |                               |
| Federal grant                       | \$ 289,318                              | 0                              | 0   | 0  | 0                          | 289,318                       |
| Examination fees                    | 0                                       | 7,083,481                      | 0   | 0  | 0                          | 7,083,481                     |
| Salesman licenses or permits        | 0                                       | 0                              | 3,182,195                                       | 0  | 0                          | 3,182,195                     |
| Broker licenses                     | 0                                       | 0                              | 423,790   | 0  | 0                          | 423,790                       |
| Merchant licenses                   | 0                                       | 0                              | 826,390   | 0  | 0                          | 826,390                       |
| Regulatory fees and renewals        | 0                                       | 0                              | 1,907,337                                       | 0  | 0                          | 1,907,337                     |
| Miscellaneous fees                  | 0                                       | 0                              | 594,565   | 0  | 0                          | 594,565                       |
| Filing fees                         | 0                                       | 0                              | 744,320   | 0  | 0                          | 744,320                       |
| Transfer from another account       | 0                                       | 0                              | 0   | 0  | 4,000                      | 4,000                         |
| Interest                            | 0                                       | 0                              | 505,799   | 10,188                                     | 8,148                      | 524,135                       |
| Other                               | 0                                       | 2,114                          | 35,306  | 0  | 0                          | 37,420                        |
| Total Receipts                      | 289,318                                 | 7,085,595                      | 8,219,702                                       | 10,188                                     | 12,148                     | 15,616,951                    |
| <b>DISBURSEMENTS</b>                |   |                                |   |  |                            |                               |
| Personal service                    | 0                                       | 4,314,268                      | 4,398,584                                       | 0  | 0                          | 8,712,852                     |
| Employee fringe benefits            | 0                                       | 1,061,996                      | 1,183,895                                       | 0  | 0                          | 2,245,891                     |
| Expense and equipment               | 0                                       | 1,615,364                      | 1,529,913                                       | 0  | 0                          | 3,145,277                     |
| State office building rent          | 0                                       | 26,312                         | 288,768   | 0  | 0                          | 315,080                       |
| Workers' compensation claims        | 0                                       | 0                              | 18,928  | 0  | 0                          | 18,928                        |
| Insurance counseling contract costs | 289,318                                 | 0                              | 0   | 0  | 0                          | 289,318                       |
| Lease parking                       | 0                                       | 0                              | 7,594   | 0  | 0                          | 7,594                         |
| Article X refunds                   | 0                                       | 0                              | 189,851   | 0  | 0                          | 189,851                       |
| Other refunds                       | 0                                       | 0                              | 37,822  | 0  | 0                          | 37,822                        |
| Transfer to another account         | 0                                       | 0                              | 0   | 91,897                                     | 3,447                      | 95,344                        |
| Other                               | 0                                       | 0                              | 0   | 0  | 187                        | 187                           |
| Total Disbursements                 | 289,318                                 | 7,017,940                      | 7,655,355                                       | 91,897                                     | 3,634                      | 15,058,144                    |
| RECEIPTS OVER (UNDER) DISBURSEMENTS | 0                                       | 67,655                         | 564,347   | (81,709)                                   | 8,514                      | 558,807                       |
| CASH AND INVESTMENTS, JULY 1        | 0                                       | 438,586                        | 8,057,043                                       | 135,866                                    | 113,052                    | 8,744,547                     |
| CASH AND INVESTMENTS, JUNE 30       | \$ 0                                    | 506,241                        | 8,621,390                                       | 54,157                                     | 121,566                    | 9,303,354                     |

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

DEPARTMENT OF INSURANCE  
COMPARATIVE STATEMENT OF RECEIPTS

|                                    |    | Year Ended June 30, |                    |                    |
|------------------------------------|----|---------------------|--------------------|--------------------|
|                                    |    | 2002                | 2001               | 2000               |
| GENERAL REVENUE FUND - STATE       |    |                     |                    |                    |
| Premium taxes                      | \$ | 165,142,630         | 144,747,082        | 152,215,097        |
| Surplus lines taxes                |    | 12,516,253          | 9,732,442          | 7,867,016          |
| Total General Revenue Fund - State | \$ | <u>177,658,883</u>  | <u>154,479,524</u> | <u>160,082,113</u> |
| WORKERS' COMPENSATION FUND         |    |                     |                    |                    |
| Workers' compensation taxes        | \$ | <u>2,221,514</u>    | <u>3,633,190</u>   | <u>18,851,326</u>  |
| SECOND INJURY FUND                 |    |                     |                    |                    |
| Second injury assessments          | \$ | <u>41,202,760</u>   | <u>40,002,911</u>  | <u>35,987,992</u>  |
| STATE SCHOOL MONEYS FUND           |    |                     |                    |                    |
| Fines and forfeitures              | \$ | <u>892,222</u>      | <u>630,132</u>     | <u>978,374</u>     |

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit C

DEPARTMENT OF INSURANCE  
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURE:

|  | Year Ended June 30, |              |                 |                |              |                 |                |              |                 |
|--|---------------------|--------------|-----------------|----------------|--------------|-----------------|----------------|--------------|-----------------|
|  | 2002                |              |                 | 2001           |              |                 | 2000           |              |                 |
|  | Appropriations      | Expenditures | Lapsed Balances | Appropriations | Expenditures | Lapsed Balances | Appropriations | Expenditures | Lapsed Balances |
| GENERAL REVENUE FUND - FEDERAL   |                     |              |                 |                |              |                 |                |              |                 |
| Purpose of funding programs providing counseling of health insurance coverage and benefits to Medicare beneficiaries | \$ 400,000          | 400,000      | 0               | 400,000        | 357,316      | 42,684          | 275,000        | 166,306      | 108,694         |
| Total General Revenue Fund - Federal   | 400,000             | 400,000      | 0               | 400,000        | 357,316      | 42,684          | 275,000        | 166,306      | 108,694         |
| INSURANCE EXAMINERS FUND   |                     |              |                 |                |              |                 |                |              |                 |
| Market conduct and financial examinations of insurance companies -   |                     |              |                 |                |              |                 |                |              |                 |
| Personal Service   | 4,924,547           | 4,758,333    | 166,214         | 4,907,327      | 4,500,845    | 406,482         | 0              | 0            | 0               |
| Expense and Equipment *  | 1,759,104           | 1,744,037    | 15,067          | 1,704,104      | 1,541,375    | 162,729         | 5,988,668      | 5,924,166    | 64,502          |
| Refunds  | 7,801               | 7,768        | 33              | 1              | 0            | 1               | 0              | 0            | 0               |
| Total Insurance Examiners Fund   | 6,691,452           | 6,510,138    | 181,314         | 6,611,432      | 6,042,220    | 569,212         | 5,988,668      | 5,924,166    | 64,502          |
| DEPARTMENT OF INSURANCE DEDICATED FUND   |                     |              |                 |                |              |                 |                |              |                 |
| Real Property Leases   | 16,198              | 8,099        | 8,099 **        | 8,099          | 8,099        | 0               | 8,099          | 7,744        | 355             |
| Personal Service   | 4,935,732           | 4,820,093    | 115,639         | 4,889,269      | 4,675,626    | 213,643         | 4,624,229      | 4,369,547    | 254,682         |
| Expense and Equipment  | 1,831,463           | 1,276,403    | 555,060         | 1,831,600      | 1,312,865    | 518,735         | 2,124,923      | 1,634,737    | 490,186         |
| Refunds  | 75,000              | 71,971       | 3,029           | 50,000         | 39,734       | 10,266          | 37,500         | 37,446       | 55              |
| Total Department of Insurance Dedicated Fund   | 6,858,393           | 6,176,566    | 681,827         | 6,778,968      | 6,036,324    | 742,644         | 6,794,751      | 6,049,474    | 745,277         |
| Total All Funds  | \$ 13,949,845       | 13,086,704   | 863,141         | 13,790,400     | 12,435,860   | 1,354,540       | 13,058,419     | 12,139,946   | 918,473         |

\* The personal service and expense and equipment appropriation were combined in fiscal year 2000.

\*\* Biennial Appropriation

The accompanying Notes to the Financial Statements are an integral part of this statement.



## Notes to the Financial Statements

DEPARTMENT OF INSURANCE  
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying financial statements present only selected data for each fund of the Department of Insurance.

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the General Revenue Fund-Federal, Insurance Examiners Fund, Department of Insurance Dedicated Fund, Trans-National Warranty Accounts, and Rehabilitation Accounts. Except for the Trans-National Warranty Accounts and Rehabilitation Accounts, appropriations from these funds are expended by or for the department for restricted purposes. The Trans-National Warranty Accounts and Rehabilitation Accounts are not subject to appropriations.

The Department of Insurance takes control of the assets and operations of insurance companies ordered into rehabilitation or liquidation by the courts. The department may appoint a special deputy receiver to act as rehabilitator or liquidator of these companies. At June 30, 2002, eighteen insurance companies were in rehabilitation or liquidation. Except for the Trans-National Warranty Accounts and Rehabilitation Accounts, the department has appointed special deputy receivers to control the operation and assets of the companies in rehabilitation or liquidation. The special deputy receivers are not officials or employees of the department; therefore, the financial activities of these companies are not presented in the financial statements.

The "Total (Memorandum Only)" column is presented as additional analytical data. Because this column does not identify the restrictions that exist by fund, it should be read only with reference to the details of each fund.

Receipts are presented in Exhibit B for the General Revenue Fund-State, Workers' Compensation Fund, Second Injury Fund, and State School Moneys Fund. Receipts include monies the department collects during its normal activities and remits to the funds. These amounts are not necessarily related to appropriations.

Appropriations, presented in Exhibit C, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the department's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the department and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statements of Receipts, Disbursements, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, present amounts when they are received or disbursed.

The Statement of Receipts, Exhibit B, prepared on the cash basis of accounting, presents amounts when received.

The Statement of Appropriations and Expenditures, Exhibit C, is presented on the state's legal budgetary basis of accounting. For the year ended June 30, 2000, expenditures include amounts payable or encumbered at June 30 and paid during the lapse period, which ended August 31. The authority to expend appropriations ended with the close of the lapse period. For years ended on or after June 30, 2001, expenditures generally consist of amounts paid by June 30, with no provision for lapse period expenditures unless the Office of Administration approves an exception. Amounts encumbered at June 30 must be either canceled or paid from the next year's appropriations.

However, both before and after June 30, 2000, the General Assembly may authorize continuous (biennial) appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are re-appropriated for expenditure during the second year. Therefore, such appropriations have no lapsed balances at the end of the first year.

The cash basis of accounting and the budgetary basis of accounting differ from accounting principles generally accepted in the United States of America. Those principles require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The department administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly, except for the Trans-National Warranty Accounts and Rehabilitation Accounts which are controlled entirely by the department.

General Revenue Fund-Federal: The department administers a program financed wholly or partially by federal monies maintained in the state treasury in the Department of Insurance's-Federal Fund. These federal monies may be received in advance, when related expenditures are made, or after they are made. Appropriations from this fund authorize disbursement of the department's federal monies.

Insurance Examiners Fund: This fund is authorized by Sections 374.160 and 374.162, RSMo 2000, to receive all monies paid to the state by insurance companies

for the costs incurred by the department in conducting examinations, valuations, or proceedings against such companies. Expenditures, authorized by appropriations, are to be used for the purpose of paying the compensation of insurance examiners and expenses incurred for supervision and support of the examiners. Any unexpended balances in this fund are perpetually maintained for the purposes of the fund.

Department of Insurance Dedicated Fund: This fund is authorized by Section 374.150, RSMo 2000, to receive all fees due to the state under the provisions of the insurance laws. Appropriations from this fund are to be used solely for the payment of expenditures incurred by the department in performing the duties required by law which are not paid for by another source of funds. Any unexpended balance in this fund is perpetually maintained for the purposes of this fund unless the unencumbered balance at the close of the biennium year exceeds two times the total amount appropriated, paid, or transferred to the fund during such fiscal year.

Trans-National Warranty Accounts: The department established various bank accounts to pay claims for an insurance company that had issued vehicle warranty agreements in Missouri but was not licensed to conduct business in the state. These bank accounts were established outside the state treasury and are not state funds. In accordance with a court order, the balances of these accounts were paid to the Cole County Circuit Court in February 2001 and the accounts were closed.

Rehabilitation Accounts: The department established various joint bank accounts and investments outside of the state treasury for the payment of claims and administrative expenses for an insurance company that was placed under rehabilitation by the department. These funds are not state funds.

General Revenue Fund-State: The department does not receive appropriations from this fund and does not maintain a proprietary interest in the fund. Receipts collected by the department and deposited into the General Revenue Fund-State include the following:

- 1) Premium taxes: In accordance with various provisions of Chapter 148, RSMo 2000, insurance companies licensed in the state are required to pay a two percent tax on direct premiums received during the calendar year. The department certifies to the Department of Revenue the amount of premium taxes due together with the amount of quarterly installments to be paid by the insurance companies. The Department of Revenue collects the premium taxes and deposits them into the General Revenue Fund-State. Some premium taxes deposited into the General Revenue Fund-State are not available for general revenue purposes. The provisions of Chapter 148, RSMo 2000, restrict about 50 percent of such premium taxes for distribution to the various school districts in the state.
- 2) Surplus lines taxes: In accordance with various provisions of Chapter 384, RSMo 2000, the department collects and deposits into the General Revenue

Fund-State a five percent tax on net premiums for high risk insurance that is underwritten by a surplus lines insurer. The department certifies to the Department of Revenue all penalties and interest due as a result of late payments. The Department of Revenue collects the penalties and interest and deposits them into the General Revenue Fund-State.

Workers' Compensation Fund: In accordance with Section 287.690, RSMo 2000, on October 31 each year, the director of the Division of Workers' Compensation estimates the amount of revenue required to administer this chapter and determines the rate of tax for the following calendar year based on that estimate as well as the estimated December 31 balance of the fund. The tax, which is imposed upon all insurance companies providing workers' compensation insurance coverage and authorized self-insurers, shall not exceed two percent in lieu of all other taxes on the workers' compensation net deposits, net premiums, or net assessments. The Department of Revenue collects these taxes and deposits them into the Workers' Compensation Fund.

Second Injury Fund: In accordance with Section 287.715.2, RSMo 2000, on October 31 each year, the director of the Division of Workers' Compensation estimates the amount of benefits payable from the Second Injury Fund during the ensuing calendar year and calculates the total amount of the annual surcharge based on that estimate to be imposed upon all workers' compensation policyholders and authorized self-insurers. The surcharge imposed shall be set at and calculated against a percentage of the policyholder's or self-insured's workers' compensation net deposits, net premiums, or net assessments for the previous policy year. The Department of Revenue collects the surcharges and deposits them into the Second Injury Fund.

State School Moneys Fund: Fines and forfeitures imposed and collected by the department under the Missouri Insurance Code are deposited into the State School Moneys Fund.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, cafeteria, and deferred compensation and deferred compensation incentive plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. The deferred compensation plan involves employee payroll deferrals and the deferred compensation incentive plan a monthly state contribution for each employee who participates in the deferred compensation plan and has been employed by the state for at least one year.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security

and medicare taxes; health care premiums; and the deferred compensation incentive amount.

Employee fringe benefits in the financial statements at Exhibit A are the transfers from the Insurance Examiners Fund and Department of Insurance Dedicated Fund for costs related to salaries paid from those funds. Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statements at Exhibit C.

2. Cash and Investments

The balances of the General Revenue Fund-Federal, Insurance Examiners Fund, and Department of Insurance Dedicated Fund are pooled with other state funds and invested by the state treasurer.

Deposits

The department's deposits in the Trans-National Warranty Accounts at June 30, 2001 and 2000, and Rehabilitation Accounts at June 30, 2002, 2001, and 2000, were entirely covered by federal depository insurance.

Investments

The Rehabilitation Accounts' only investment at June 30, 2002, 2001, and 2000, was a U.S. Treasury note with a reported amount of \$85,000 (which approximated fair value).

This investment was held by the custodial bank in the name of the insurance company and the department.

3. Article X Refunds/Refund Replenishments

Article X, Sections 16 through 24 of the Missouri Constitution establishes a revenue limit for Missouri State Government. Total state revenues exceeded this limit in fiscal years 1998 and 1999 which triggered income tax refund liabilities under provisions of the Constitution. The Office of Administration calculated the proportional share of the liabilities to be allocated to each fund and transfers were made from the Department of Insurance Dedicated Fund to the state's General Revenue Fund to cover the fund's share of the liabilities.

4. State Office Building Rent

The Office of Administration calculated the proportional share of costs for state office building space to be allocated to each fund, and monthly transfers were made from the Insurance Examiners Fund and the Department of Insurance Dedicated Fund to the state's General Revenue Fund to cover each fund's share of the costs.

5. Insurance Counseling Contract Costs

The department contracted with the Missouri Patient Care Review Foundation to provide insurance counseling services for senior citizens. This expenditure category represents the costs associated with this contract paid from the General Revenue Fund-Federal.

6. Lease Parking

The Missouri General Assembly made appropriations from the Department of Insurance Dedicated Fund for the department's proportionate share of lease parking at the state office buildings in St. Louis and Kansas City. These appropriations are administered by the Office of Administration, Division of Facilities Management.

7. Securities on Deposit

Insurance companies doing business in Missouri are required to deposit securities with the department for the protection of policy holders and creditors in accordance with various provisions of Chapters 354, 376, 379, 381, and 384, RSMo 2000. Only capital securities are required and the requirements are dependent on the type of insurance company.

Securities having a total accepted value of approximately \$310 million, \$305 million, and \$274 million at June 30, 2002, 2001, and 2000, respectively, were on deposit with the contracted bank. The accepted value is the market value of each security at year-end. These amounts are not included in the financial statements because the department has no ownership interest in them. Missouri domiciled insurance companies sometimes maintain securities on deposit in excess of Missouri requirements to meet the depository requirements of other states in which they do business. Foreign domiciled insurance companies are frequently not required to deposit securities with the department if securities meeting Missouri requirements are on deposit with the applicable state of domicile.

8. Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit C as follows:

| <u>General Revenue Fund-Federal</u> |    | <u>Year Ending June 30,</u> |                |                |
|-------------------------------------|----|-----------------------------|----------------|----------------|
|                                     |    | <u>2002</u>                 | <u>2001</u>    | <u>2000</u>    |
| DISBURSEMENTS PER EXHIBIT A         | \$ | 400,000                     | 409,484        | 289,318        |
| Lapse period expenditures:          |    |                             |                |                |
| 2002                                |    | 0                           | 0              | 0              |
| 2001                                |    | 0                           | 0              | 0              |
| 2000                                |    | 0                           | (52,168)       | 52,168         |
| 1999                                |    | 0                           | 0              | (175,180)      |
| EXPENDITURES PER EXHIBIT C          | \$ | <u>400,000</u>              | <u>357,316</u> | <u>166,306</u> |

Insurance Examiners Fund

| Year Ending June 30,         |                     |                  |                  |
|------------------------------|---------------------|------------------|------------------|
|                              | 2002                | 2001             | 2000             |
| DISBURSEMENTS PER EXHIBIT A  | \$ 7,929,795        | 7,349,074        | 7,017,940        |
| Employee fringe benefits     | (1,266,690)         | (1,189,382)      | (1,061,996)      |
| State office building rent   | (27,938)            | (25,685)         | (26,312)         |
| Workers' compensation claims | (14,910)            | 0                | 0                |
| Cost allocation plan         | (107,846)           | 0                | 0                |
| Lapse period expenditures:   | 0                   | 0                | 0                |
| 2002                         | 0                   | 0                | 0                |
| 2001                         | (11,526)            | 11,526           | 0                |
| 2000                         | 0                   | (103,303)        | 103,303          |
| 1999                         | 0                   | 0                | (103,073)        |
| Accounts payable, June 30:   | 0                   | 0                | 0                |
| 2002                         | 9,253               | 0                | 0                |
| 2001                         | 0                   | 0                | 0                |
| 2000                         | 0                   | (10)             | 10               |
| 1999                         | 0                   | 0                | (5,706)          |
| EXPENDITURES PER EXHIBIT C   | \$ <u>6,510,138</u> | <u>6,042,220</u> | <u>5,924,166</u> |

Department of Insurance Dedicated Fund

| Year Ending June 30,         |                     |                  |                  |
|------------------------------|---------------------|------------------|------------------|
|                              | 2002                | 2001             | 2000             |
| DISBURSEMENTS PER EXHIBIT A  | \$ 8,123,134        | 8,239,757        | 7,655,355        |
| Employee fringe benefits     | (1,547,075)         | (1,471,687)      | (1,183,895)      |
| State office building rent   | (226,112)           | (303,589)        | (288,768)        |
| Worker's compensation claims | (35,916)            | (20,690)         | (18,928)         |
| Article X refunds            | 0                   | (105,561)        | (189,851)        |
| Cost allocation plan         | (148,679)           | 0                | 0                |
| Other                        | (3,497)             | 0                | 0                |
| Lapse period expenditures:   | 0                   | 0                | 0                |
| 2002                         | 0                   | 0                | 0                |
| 2001                         | 14,662              | (14,662)         | 0                |
| 2000                         | 0                   | (286,437)        | 286,437          |
| 1999                         | 0                   | 0                | (193,264)        |
| Accounts payable, June 30:   | 0                   | 0                | 0                |
| 2002                         | 50                  | 0                | 0                |
| 2001                         | (1)                 | 1                | 0                |
| 2000                         | 0                   | (808)            | 808              |
| 1999                         | 0                   | 0                | (18,420)         |
| EXPENDITURES PER EXHIBIT C   | \$ <u>6,176,566</u> | <u>6,036,324</u> | <u>6,049,474</u> |



## Supplementary Data

Schedule

DEPARTMENT OF INSURANCE  
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

|   |    | Year Ended June 30, |                   |                   |
|---|----|---------------------|-------------------|-------------------|
|   |    | 2002                | 2001              | 2000              |
| Salaries and wages                      | \$ | 9,578,426           | 9,176,471         | 8,709,450         |
| Travel, in-state                        |    | 360,821             | 296,436           | 348,109           |
| Travel, out-of-state                    |    | 1,230,230           | 1,110,729         | 1,065,140         |
| Fuel and utilities                      |    | 0                   | 0                 | 66                |
| Supplies                                |    | 268,817             | 0                 | 0                 |
| Administrative supplies                 |    | 0                   | 272,575           | 236,909           |
| Merchandising supplies                  |    | 0                   | 325               | 1,909             |
| Repair, maintenance, and usage supplies |    | 0                   | 3,432             | 2,432             |
| Residential supplies                    |    | 0                   | 917               | 879               |
| Specific use supplies                   |    | 0                   | 5,079             | 3,441             |
| Professional development                |    | 121,462             | 112,843           | 152,951           |
| Communication service and supplies      |    | 208,347             | 213,969           | 16,985            |
| Services:                               |    |                     |                   |                   |
| Business                                |    | 0                   | 199,587           | 171,708           |
| Professional                            |    | 496,368             | 191,039           | 213,047           |
| Housekeeping and janitorial             |    | 0                   | 61                | 57                |
| Maintenance and repair                  |    | 60,198              | 0                 | 0                 |
| Equipment maintenance and repair        |    | 0                   | 71,386            | 92,090            |
| Transportation maintenance and repair   |    | 0                   | 1,116             | 0                 |
| Computer equipment                      |    | 178,110             | 134,623           | 414,586           |
| Electronic and photo equipment          |    | 0                   | 9,528             | 2,500             |
| Motorized equipment                     |    | 0                   | 32,196            | 0                 |
| Office equipment                        |    | 33,375              | 103,271           | 32,755            |
| Specific use equipment                  |    | 0                   | 161               | 0                 |
| Stationary equipment                    |    | 0                   | 3,929             | 0                 |
| Property and improvements               |    | 4,087               | 0                 | 17,202            |
| Debt service                            |    | 9,741               | 0                 | 0                 |
| Real property rentals and leases        |    | 10,898              | 8,705             | 7,948             |
| Equipment rental and leases             |    | 43,623              | 0                 | 0                 |
| Building lease payments                 |    | 0                   | 82,923            | 82,077            |
| Building and equipment rentals          |    | 0                   | 3,792             | 35,122            |
| Miscellaneous expenses                  |    | 2,462               | 3,717             | 4,108             |
| Rebillable expenses                     |    | 0                   | 0                 | 324,723           |
| Refunds                                 |    | 79,739              | 39,734            | 37,446            |
| Program distributions                   |    | 400,000             | 357,316           | 166,306           |
| Total Expenditures                      | \$ | <u>13,086,704</u>   | <u>12,435,860</u> | <u>12,139,946</u> |

Note: Certain classifications of expenditures changed during the three-year period, which may affect the comparability of the amounts.

## MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -  
State Auditor's Findings

DEPARTMENT OF INSURANCE  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

We have audited the financial statements of the Department of Insurance as of and for the years ended June 30, 2002, 2001, and 2000, and have issued our report thereon dated April 4, 2003.

The following Management Advisory Report presents our findings arising from our audit of the Department of Insurance's financial statements. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered all-inclusive of areas needing improvement.

|                                       |
|---------------------------------------|
| <b>1. Examiners' Expense Accounts</b> |
|---------------------------------------|

The Insurance Examiners Fund was established pursuant to Section 374.162, RSMo 2000, to pay market conduct and financial examiners' salaries and expenses. Insurance companies being examined reimburse the fund. The Missouri Department of Insurance (MDI) computes billings for the companies using the examiners' expense reports, time sheets, and other miscellaneous expense amounts. The MDI adds an additional 15 percent administrative fee to each billing in accordance with Section 374.160(3), RSMo 2000.

The examiners frequently incur travel expenses since they must travel to the insurance companies to perform the examinations. Travel expenses paid from the Insurance Examiners Fund totaled approximately \$1.49 million, \$1.29 million, and \$1.31 million for fiscal years 2002, 2001, and 2000, respectively. The MDI has developed travel policies that are included in the department's policy manual. Our review noted certain instances where travel expenses could be reduced by modifying department travel policy or by better monitoring of compliance with existing department travel policies.

A. The MDI's current travel policies allow examiners domiciled in the same location and working on the same examination to use different travel methods, which appears to have resulted in higher travel costs. We noted the following examples:

- 1) During a financial examination in March 2003 in Des Moines, Iowa, two examiners worked four ten-hour days and returned home every weekend while the examiner-in-charge (EIC) worked five eight-hour days, staying in Des Moines for a weekend and returning home every second weekend. Each examiner was domiciled in St. Louis and flew to the exam site. MDI policy requires examiners when flying to the exam site to return home every weekend unless it is less expensive to stay at the job site on one weekend and return home every second weekend. Each examiner documented that his work schedule was the most cost effective method and the examination manager approved each proposed work schedule. However, the EIC's

estimates were based on higher airfare because he used the rates of a different, more expensive airline than the other examiners. There was no documentation or justification for the EIC's higher estimated airfare costs, even though all three examiners flew to and from the same airports. The EIC's actual airfare costs were the same as the other examiners, but because he worked 5-day weeks and stayed at the job site every other weekend, he incurred higher actual costs than the other two examiners. Over a particular two-week period, the EIC's actual travel costs were \$240 more than the other examiners' costs.

- 2) During a financial examination in March 2003 in Columbia, Missouri, two examiners, domiciled in Kansas City, worked four ten-hour days each week while the other examiners, one domiciled in Kansas City and two domiciled in Jefferson City, worked five eight-hour days each week. The examiners working the four-day schedule received approval from the examination manager after documenting the cost savings compared to a five-day work schedule. Although it appears the work schedules of the other examiners resulted in higher costs, the MDI did not require these examiners to adopt the lower cost four-day work schedule. MDI officials explained for non-flying jobs, the five-day week is the standard and employees are not required to document or justify travel costs unless a different work schedule is used. The MDI should change the policy to require examiners to adopt the lowest cost work schedule for all examinations.

- B. The MDI does not require examiners to ride together when driving to the examination site or to the airport. We reviewed examiners' expense reports for the 10 market conduct examinations conducted during January 2003 and the 10 financial examinations conducted in March 2003 and noted opportunities existed on four of these examinations for examiners to ride together to the examination site or airport. The examiners drove separately in these instances. Because the employees drove personal vehicles and received mileage reimbursements, requiring employees to ride together could have resulted in lower travel costs.

Similar conditions were noted in our prior audit. While the department has implemented some procedures to better monitor and control examiners' travel costs, additional improvement is needed. This is especially important because insurance companies pay for these travel costs and then receive a credit on their premium taxes, thus reducing state revenues.

**WE RECOMMEND** the MDI:

- A. Adopt policies which require examiners to document planned travel costs for each examination and require the least expensive travel methods to be adopted and approved. Any extenuating circumstances which require adoption of more expensive travel methods should be fully documented.

- B. Require examiners to ride together to examination sites when feasible.

**AUDITEE'S RESPONSE**

- A. *The department is committed to conducting examinations in as cost-effective manner as possible. Currently, the department's travel policy requires examiners to return home every weekend unless it is less expensive to stay at the job site one weekend and return home every second weekend. Examiners are required to project expected costs to justify a deviation from the policy. The department will more closely monitor the relationship of projected costs to actual costs to ensure the least expensive travel methods are used in a manner consistent with effective and efficient management of examinations.*

*Department policy requires examiners who work a schedule other than the standard five days per week/eight hours per day to document savings in order to justify such a schedule. Uniformity of work schedules is encouraged. The department will more closely monitor exam team work-schedules to ensure the least expensive work schedules are used in a manner consistent with effective and efficient management of examinations.*

- B. *The department's travel policy requires examiners to share rides to work sites when department-owned or rental vehicles are used for transportation. The department does not however, require examiners to transport other examiners in their personal vehicles because the state's liability coverage does not extend to personal vehicles even though they are being used for business purposes. Examiners who are comfortable transporting others in their personal vehicles are encouraged to do so.*

*The department is currently working with the Division of Purchasing to bid an instate and out-of-state car rental contract. This contract will be used when it would result in cost savings over travel in personal vehicles or state-owned vehicles and should decrease the need for examiners to travel in personal vehicles.*

|  |
|--|
| <b>2. Surplus Lines Delinquent Premium Taxes</b> |
|--|

The MDI regulates the placement of coverage and collection of taxes on premiums written in the non-admitted market known as surplus lines. The non-admitted market consists of insurers that are not licensed to do business in Missouri, but are eligible to write insurance policies for coverage not served in the general commercial market. Surplus lines brokers and self-procurers are required to report annually to the MDI the premiums for policies written during the year and remit a tax of five percent of total premiums to the MDI. The premium taxes become delinquent on April 16. The MDI collects delinquent premium taxes and certifies the delinquent collection amounts to the Department of Revenue (DOR), and the DOR collects applicable interest and penalties.

The MDI has not certified delinquent premium tax collections on surplus lines policies on a timely basis. The MDI certified delinquent collections totaling \$811,312 and \$266,074 due in 2002 and 2001, respectively, to the DOR in January 2003. Interest and penalties to be collected for these delinquent taxes totaled \$102,724 and \$41,288 for 2002 and 2001,

respectively. A cooperative agreement between the MDI and the DOR requires certification of delinquent premium taxes to the DOR every six months. MDI officials indicated problems with its computer program for calculating interest and penalties contributed to the untimely certification. Timely certifications of delinquent tax collections are necessary to help ensure prompt collection of taxes, interest, and penalties.

**WE RECOMMEND** the MDI certify delinquent surplus lines premium tax collections to the DOR within the time frames required by the cooperative agreement.

### **AUDITEE'S RESPONSE**

*The department agrees. The problem with the computer system's calculation of the penalty and interest has been corrected. Future certifications will be completed in a timely manner.*

|                                      |
|--------------------------------------|
| <b>3. Federal Grant Expenditures</b> |
|--------------------------------------|

The MDI receives a federal grant from the U.S. Department of Health and Human Services (DHHS), Centers for Medicare and Medicaid Services, which it uses to contract with a not-for-profit foundation to provide insurance counseling services for senior citizens. Amounts paid to the foundation totaled about \$400,000, \$409,000, and \$289,000 for the years ended June 30, 2002, 2001, and 2000, respectively.

To obtain payment from the MDI, the foundation submits monthly invoices listing the hours spent by various personnel and the hourly reimbursement rate for the applicable personnel. Also included on the invoices are other operating expenses, such as temporary employees, telephone, promotional items, postage, and travel. The MDI tracks these expenses to ensure they are within the grant budget amount and also compares these expenses to monthly performance reports for reasonableness. The MDI does not require the foundation to provide detailed documentation supporting the amounts claimed for reimbursement. Also included on the invoices are amounts for fringe benefits and indirect costs. The foundation bills for actual indirect costs and fringe benefits not to exceed the rates approved by the DHHS for another contract with the foundation; however, the MDI has not required the foundation to provide documentation for these rates.

To ensure amounts paid are reasonable and in compliance with the grant requirements, the MDI should require the foundation to submit detailed documentation supporting the amounts claimed for reimbursement. In addition, the MDI should require the foundation to submit documentation of fringe benefit and indirect cost rate calculations to ensure the rates are reasonable and do not include costs already billed to the MDI.

A similar condition was noted in our prior audit.



**WE RECOMMEND** the MDI require the foundation to submit detailed documentation to support expenses claimed for reimbursement. In addition, the MDI should require the foundation to document its fringe benefit and indirect cost rate calculations.

**AUDITEE'S RESPONSE**

*The department meets all federal requirements for spending, monitoring, and reporting of grant funds. The department's previous audit recommended that the foundation be required to submit adequate supporting documentation and that the documentation be reviewed for reasonableness. It further recommended that any undocumented or unusual items be investigated and explained before approving invoices for payment. The department made revisions to the contract to require additional reporting and bill detail. A staff person was assigned to review each monthly bill and to track expenditures against the grant budget.*

*This contract will be re-bid in the near future. The department will make further revisions when the request for proposals is let for bid. Further breakdown of expense and equipment categories, additional supporting documentation where needed, and detail of what is included in fringe and indirect calculations will be requested and reviewed.*

This report is intended for the information and use of the management of the Department of Insurance and other applicable government officials. However, pursuant to Section 29.270, RSMo 2000, this report is a matter of public record and its distribution is not limited.

## Follow-Up on Prior Audit Findings

DEPARTMENT OF INSURANCE  
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the Department of Insurance on findings in the Management Advisory Report (MAR) of our prior audit report issued for the two years ended June 30, 1999.

The prior recommendations which have not been implemented, but are considered significant, are repeated in the current MAR. Although the remaining unimplemented recommendations are not repeated, the department should consider implementing those recommendations.

1.     Receipts

Some receipts were not transmitted by the Missouri Department of Insurance (MDI) to the Department of Revenue (DOR) for deposit on a timely basis and checks were not restrictively endorsed immediately upon receipt. Also, a record of checks being held by the department, called the "pending check log," was not kept up-to-date.

Recommendation:

The MDI restrictively endorse checks immediately upon receipt and transmit receipts to the DOR in a timely manner. In addition, the MDI should ensure the "pending check log" is properly updated.

Status:

Implemented.

2.     Examiners' Expense Accounts

A.     For expense accounts reviewed for the period April 15, to May 15, 1999, all insurance examiners claimed the maximum meal allowance for reimbursement. Also, examiners working on the same examination sometimes incurred additional costs by traveling separately to the exam site.

B.     The department's travel policies provided for the examiners to return to their domicile every other weekend, which sometimes resulted in higher travel costs than would have been incurred if the examiners had returned to their domicile every weekend.

Recommendation:

The MDI:

A.     Ensure expenses claimed by the examiners are reasonable and in compliance with the department's travel policies.

- B. Consider changes to the department's travel policies so that examiners do not remain at the job site over the weekend when it would be more economical to return to their domicile.

Status:

Partially implemented. The MDI has changed its travel policies to require receipts for individual meal expenses of \$15 or more and to require examiners to return to their domicile every weekend when it is more economical than staying at the job site. However, we noted instances where travel costs savings could be achieved with further changes to MDI travel policy and better monitoring of existing policy. See MAR finding number 1.

3. Federal Grant Expenditures

The MDI received a federal grant to contract with a not-for-profit foundation to provide insurance counseling services to senior citizens. The MDI did not adequately review the monthly expenditure invoices submitted by the foundation or follow up on unusual expenditures included on the monthly invoices.

Recommendation:

The MDI require the foundation to submit adequate supporting documentation and review this documentation for reasonableness. Any undocumented or unusual items should be investigated and explained before approving invoices for payment.

Status:

Partially implemented. The MDI modified the contract to establish maximum quarterly payments and made other changes to the contract terms. However the MDI has not required the foundation provide detailed documentation to support expenses claimed for reimbursement. See MAR finding number 3.

4. Computer Information Systems

The department did not have a formal contingency plan for their computer system.

Recommendation:

The MDI develop formal contingency plans and provide a system for periodic review and testing of the contingency plans.

Status:

Partially implemented. The MDI has begun developing a contingency plan and expects to complete the plan by June 2003. Although not repeated in the current MAR, our recommendation remains as stated above.

5. Receiverships

The MDI administered certain insurance companies requiring rehabilitation or liquidation, commonly referred to as receiverships. The special deputy receivers or agents for insurance companies in receivership submitted reports to the MDI; however, MDI personnel only occasionally visited the special deputy receivers and agents to review the accounting records which support these reports. Additionally, independent audits were not required for companies in receivership.

Recommendation:

The MDI require independent audits for all receiverships or perform other monitoring procedures to ensure the information and reports submitted by the special deputy receivers or agents are accurate.

Status:

Implemented.

6. Delinquent Taxes

- A. The MDI did not prepare timely reconciliations between its delinquent tax listings and the delinquent tax listings prepared by the DOR.
- B. The MDI computer-generated delinquent tax listing at March 31, 1999, was significantly overstated and manual adjustments were made correct the listing.

Recommendation:

The MDI:

- A. Perform reconciliations between the DOR and the MDI delinquent tax listings in a timely manner.
- B. Correct the computer system and work with the DOR to ensure that the delinquent tax listing is accurate.

Status:

Implemented.

7. Regulation of Health Maintenance Organizations

- A. The MDI had not developed written procedures detailing how the various health maintenance organization (HMO) reports were to be analyzed by MDI analysts.
- B. Reports were frequently filed late by the various HMOs and the MDI did not assess a fine or fee for the late reports.

Recommendation:

The MDI:

- A. Develop standardized, written procedures for the review of health maintenance organizations' reports. These procedures should indicate how the review is to be documented, including the name of the reviewer, date prepared, and the results of the review.
- B. Consider assessing fines or fees to HMOs which do not file statutorily required reports in a timely manner.

Status:

Implemented.

8. Market Conduct Section

While Market Conduct Section personnel indicated they followed examination procedures established by the National Association of Insurance Commissioners (NAIC), written examination programs were sometimes not included in the working papers.

Recommendation:

The MDI require the Market Conduct Section utilize formal written examination programs documenting the procedures performed. A copy of the program should be included in the working papers and an indication of the steps performed as well as the examiner performing the steps should be made.

Status:

Partially implemented. The Market Conduct Section developed more detailed written examination plans which detail the planned examination procedures, and has developed written examination procedures and handbooks to supplement the NAIC handbook. Additional changes planned for approximately September 2003 will require the working papers contain examination programs. Although not repeated in the current MAR, our recommendation remains as stated above.

## STATISTICAL SECTION

History, Organization, and  
Statistical Information



DEPARTMENT OF INSURANCE  
HISTORY, ORGANIZATION  
AND STATISTICAL INFORMATION

The Missouri Division of Insurance was created by an act of the Missouri legislature in 1869. With the enactment of the state Omnibus Reorganization Act of 1974, the agency was transferred to the Department of Consumer Affairs, Regulation and Licensing. Constitutional Amendment No. 6, passed in August 1984, changed the name of the Department of Consumer Affairs, Regulation and Licensing, to the Department of Economic Development, effective September 7, 1984. Constitutional Amendment No. 4, passed in August 1990, created a new Department of Insurance (MDI), effective July 1, 1991.

The department operates under the authority of Chapter 374, RSMo. The management and control of the department is vested in a director who is nominated by the governor with the advice and consent of the Senate. Keith Wenzel served as Director from May 10, 1999 to March 14, 2001. Scott Lakin was appointed Director on March 15, 2001, and continues to serve in that capacity.

When the agency was organized in 1869, 51 domestic and 120 foreign insurance companies were licensed in Missouri. As of December 2002, there were 246 domestic and 1,510 foreign insurance companies licensed in Missouri.

The MDI regulates the insurance industry in the state through enforcement of Chapters 325, 354, and 374 through 385, RSMo. The department regulates and licenses the insurance industry in the state; ensures that the insurance industry is financially sound, trustworthy, competent, and responsive to the insurance-buying public; and ensures that the insurance industry complies with the laws of the state. To fulfill these responsibilities, the department maintains a central office in Jefferson City and branch offices in St. Louis and Kansas City. As illustrated in the following organization chart, the MDI is organized into these functional units: Market Regulation and Consumer Affairs, Administration and Legislative Affairs, and Financial Regulation and Legal Issues. The MDI had 217 employees at June 30, 2002.

The following provides a breakdown of the type of companies licensed in the state.

| Type of Company                     | As of December 31, 2002 |              |
|-------------------------------------|-------------------------|--------------|
|                                     | Missouri<br>Domicile    | Foreign      |
| Assessment                          | 1                       | 0            |
| FAIR Plan                           | 1                       | 0            |
| Foreign Fire                        | 0                       | 6            |
| Fraternal Benefit                   | 2                       | 32           |
| Health Maintenance Organization     | 18                      | 5            |
| Life                                | 35                      | 549          |
| Malpractice                         | 1                       | 0            |
| Missouri (Farm) Mutuals             | 28                      | 0            |
| Missouri Mutuals                    | 91                      | 0            |
| Mutual Casualty                     | 5                       | 40           |
| Mutual Fire                         | 0                       | 26           |
| Prepaid Dental Plan                 | 6                       | 8            |
| Reciprocal Inter-Insurance Exchange | 4                       | 13           |
| Reinsurer                           | 0                       | 68           |
| Risk Retention Group                | 0                       | 50           |
| Self-Insured Liability              | 8                       | 0            |
| Stock Casualty                      | 41                      | 603          |
| Stock Fire                          | 2                       | 96           |
| Title                               | 3                       | 14           |
| Totals                              | <u>246</u>              | <u>1,510</u> |

According to the National Association of Insurance Commissioners (NAIC), for 2001, Missouri ranks ninth nationally in the number of companies incorporated in the state and seventeenth in the amount of premium volume written. The department's budget for fiscal year 2002 ranks eighteenth nationally.

DEPARTMENT OF INSURANCE  
ORGANIZATION CHART  
DECEMBER 31, 2002

